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**REQUEST FOR PROPOSAL-Primary
Notice to Prospective Proposers**

January 26, 2005

You are invited to review and respond to this Request for Proposal (RFP), entitled RFP DIR/DWC 04-001 and Study of Effects of Legislative Reforms on California Workers' Compensation Insurance Rates. In submitting your proposal, you must comply with these instructions.

Note that all agreements entered into with the State of California will include by reference General Terms and Conditions and Contractor Certification Clauses that may be viewed and downloaded at Internet site www.ols.dgs.ca.gov/ standard+language. If you do not have Internet access, a hard copy can be provided by contacting the person listed below.

In the opinion of the Department of Industrial Relations, this RFP is complete and without need of explanation. However, if you have questions, or should you need any clarifying information, the contact person for this RFP is:

Alan Lo, Contract Analyst
Department of Industrial Relations
Division of Administration-Contracts Unit
455 Golden Gate Avenue, 8th Floor
San Francisco, CA 94102
(415) 703-1605

or

Aurora Tison
(415) 703-4912

Please note that no *verbal* information given will be binding upon the State unless such information is issued in writing as an official addendum.

A handwritten signature in cursive script that reads 'Aurora Tison'.

Aurora Tison
Contract Administrator

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* Delete if not applicable.

** These documents are not required with the Proposal package but are required upon award of the contract.

A) Purpose and Description of Services

The purpose of the RFP is to allow the Administrative Director (AD) of the Division of Workers' Compensation (DWC) to contract with a qualified organization to study the effects of the 2003 and 2004 legislative reforms on workers' compensation insurance rates in California, as required by Labor Code section 138.65.

138.65. (a) The administrative director, after consultation with the Insurance Commissioner, shall contract with a qualified organization to study the effects of the 2003 and 2004 legislative reforms on workers' compensation insurance rates. The study shall do, but not be limited to, all of the following:

- (1) Identify and quantify the savings generated by the reforms.*
- (2) Review workers' compensation insurance rates to determine the extent to which the reform savings were reflected in rates. When reviewing the rates, consideration shall be given to an insurer's premium revenue, claim costs, and surplus levels.*
- (3) Assess the effect of the reform savings on replenishing surpluses for workers' compensation insurance coverage.*
- (4) Review the effects of the reforms on the workers' compensation insurance rates, marketplace, and competition.*
- (5) Review the adequacy and accuracy of the pure premium rate as recommended by the Workers' Compensation Insurance Bureau and the pure premium rate adopted by the Insurance Commissioner.*

(b) Insurers shall submit to the contracting organization premium revenue, claims costs, and surplus levels in different timing aggregates as established by the contracting organization, but at least quarterly and annually. The contracting organization may also request additional materials when appropriate. The contracting organization and the commission shall maintain strict confidentiality of the data. An insurer that fails to comply with the reporting requirements of this subdivision is subject to Section 11754 of the Insurance Code.

(c) The administrative director shall submit to the Governor, the Insurance Commissioner, and the President pro Tempore of the Senate, the Speaker of the Assembly, and the chairs of the appropriate policy committees of the Legislature, a progress report on the study on January 1, 2005, and July 1, 2005, and the final study on or before January 1, 2006. The Governor and the Insurance Commissioner shall review the results of the study and make recommendations as to the appropriateness of regulating insurance rates. If, after reviewing the study, the Governor and the Insurance Commissioner determine that the rates do not appropriately reflect the savings and the timing of the savings associated with the 2003 and 2004 reforms, the Governor and the Insurance Commissioner may submit proposals to the Legislature. The proposals shall take into consideration how rates should be regulated, and by whom. In no event shall the proposals unfairly penalize insurers that have properly reflected the 2003 and 2004 reforms in their rates, or can verify that they have not received any cost savings as a result of the reforms.

(d) The cost of the study shall be borne by the insurers up to one million dollars (\$1,000,000). The cost of the study shall be allocated to an insurer based on the insurer's proportionate share of the market.

Brief Summary of Recent Legislative Changes

Assembly Bill 749 (Chapter 6, Statutes of 2002) was the first of three recent workers' compensation reform measures. Although not specifically made a part of the study required by Labor Code section 138.65, its impact must also be considered. Major provisions of AB 749 include, but are not limited to:

- An increase in temporary disability and permanent total disability rates on January 1 or each year, beginning January 1, 2003. Increases from January 1, 2006 and beyond are based on the percentage increase in the state's average weekly wage.
- Increases in permanent partial disability rates in 2004, 2005, and 2006.
- Authorization to establish a grant-based return-to-work program.
- Revised audit penalties pursuant to Labor Code section 5814.
- Revision of the managed care program (Health Care Organizations).
- Approval for "carve-out" programs for the timber and aerospace industries.

Senate Bill 228 (Chapter 639, Statutes of 2003) and Assembly Bill 227 (Chapter 635, Statutes of 2003) combined for the second recent workers' compensation reform package. Major provisions of SB 228 and AB 227 include, but are not limited to:

- A requirement for employers to establish utilization review processes.
- Use of the Medicare payment system for the official medical fee schedule beginning January 1, 2004.
- Authority for the AD to develop a physician services fee schedule by January 1, 2006.
- Requirement for the AD to establish an outpatient surgery fee schedule.
- Approval of "carve-out" programs for all industries.
- Elimination of rehabilitation benefits and replacement with a supplemental job displacement benefit.
- Establishment of a spinal surgery second opinion process.

Senate Bill 899 (Chapter 34, Statutes of 2004) was the third and final recent workers' compensation reform measure. Major provisions of SB 899 include, but are not limited to:

- Revision of the Permanent Disability Rating Schedule to require use of the AMA Guides to Permanent Impairment and modification based on future earning capacity.
- Increase in the use of Qualified Medical Examiners for both represented and unrepresented injured workers.
- Authorization to develop medical provider networks as a way to manage medical treatment costs.
- Elimination of the treating physician presumption.
- Increases or decreases in the number of weeks of permanent disability based on whether or not the employee was offered a return to work for the same employer.
- Requirement for an employer to provide up to \$10,000 in medical treatment before a claim is accepted or rejected.

Current Status of Insurance Market and Regulation

The California workers' compensation insurance market has changed dramatically since premium rates were deregulated in 1995. California specialty insurers have largely left the market, while the market shares of the State Fund and of national private insurers have increased. Employer-paid premium rates have been extremely volatile, with large post-deregulation declines in rates, eventually superseded by significant rate increases. Recently, many employers, especially small businesses or those in high-hazard industries, have reputedly seen a very limited marketplace, with most business handled by the State Fund, often without any competitive insurers.

Until 1995, California's workers' compensation insurance rates were regulated by the Insurance Commissioner under the minimum rate law passed in 1915. Under this law, an insurer could not issue, renew or continue workers' compensation insurance at premium rates that were less than the rates approved by the Insurance Commissioner. The Commissioner, through its statistical agent, the Workers' Compensation Insurance Rating Bureau (WCIRB), gathered and analyzed premium and loss data; classified businesses; did actuarial projections; and determined final, fully developed, premium rates that included all the costs of benefits and administrative overhead. The final (net) premium could be lower, depending on the dividends paid by insurers at the end of the policy period.

Workers' compensation reform legislation in 1993 repealed California's 80-year-old minimum rate law and replaced it (beginning in January 1995) with an open-competition system of rate regulation in which insurers set their own rates based on "pure premium advisory rates" developed by the WCIRB. These rates, approved by the Insurance Commissioner and subject to annual adjustment, are based on historical loss data for more than 500 job categories.

Under this open rating system, these recommended, non-mandatory pure premium rates are intended to cover the average costs of benefits and loss adjustment expenses for all employers in an occupational class, and thus provide insurers with benchmarks for pricing their policies. After the repeal of the minimum rate law effective January 1995, changes were noted in the actions of insurers and employers.

Workers' Compensation Insurance Rate Studies

The adoption of insurance rate deregulation in the 1993 legislative session was preceded by a legislatively-mandated study of insurance rates and the ratemaking process. During the late 1970s and 1980s, several states had begun to reassess the desirability of "administered pricing" mechanisms (fully developed rates set by the regulatory authority) and began deregulating workers' compensation insurance ratemaking. After study by the Justice Department, the Small Business Subcommittee of the House of Representatives, the General Accounting Office and its own working groups, the National Association of Insurance Commissioners (NAIC) recommended in December 1989 that states prohibit the filing of fully developed rates.

The California Legislature established the Workers' Compensation Insurance Rate Study Commission (Chapter 892, Statutes of 1989) in 1989. The Commission was mandated to evaluate the workers' compensation ratemaking process in California and the relative effectiveness of ratemaking systems in other states. When the Commission proposed deregulation of workers' compensation insurance rates in 1992, the final report recommended "the Insurance Commissioner (be) instructed to do an annual study of how the system is working

to accomplish its goals so that appropriate modification can be made, if needed, before major problems arise.” (CWCRSC, Final Report, Volume 1, page I-1.0-7.) Specifically, Recommendation #10 states, “The Commission recommends that the Commissioner of Insurance issue an annual report evaluating the state of competition in the workers’ compensation insurance market.” However, the statute that instituted open rating for California contained no such periodic report. Prior to the Labor Code section 138.65 study that is the subject of this RFP, neither the California Department of Insurance nor the Division of Workers’ Compensation had any statutory responsibility to evaluate the nature of competition in the deregulated market, nor the difficulties faced by any specific groups of employers (either by type of work, size of workplace, or location) in securing coverage at reasonable rates.

The State of Michigan, in contrast, passed laws in 1982 establishing a competitive regulatory environment for workers’ compensation insurance. As part of these acts (Public Acts 7 and 8), the Insurance Commissioner was directed to annually evaluate the state of competition in the workers’ compensation insurance market to ensure “that it is sufficient to prevent prices from rising above the level necessary to provide a fair rate of return on investment to cost efficient insurers.” (Appendix 1) Market performance was to be evaluated on several factors, including availability of workers’ compensation insurance coverage by size of employer and geographic location. The Michigan Insurance Commissioner is required to prepare an annual report. A copy of the latest full edition of that report (covering 2001) is found at http://www.michigan.gov/documents/cis_ofis_wc_rpts02_59759_7.pdf. On May 14, 2004, the state Insurance Commissioner issued a letter determining that the market remained competitive in 2003. (See http://www.michigan.gov/documents/WC_Competition_051404_91749_7.pdf).

The state of Maine’s Bureau of Insurance also does an annual report on “The State of Competition in the Maine Workers’ Compensation Market” pursuant to MRSA 24-A, section 2383-A. The last report was dated December 15, 2004. A copy is found at http://www.state.me.us/pfr/120 Legis/reports/ins_competition_report_2004.htm.

Maine’s report includes the following sections:

- Recent Experience in the Maine Workers’ Compensation Market
- Market Structure and Competition
- Rate Differentials
- Tiered Rating
- Scheduled Rating
- Dividend Plans
- Retrospective Rating and Large Deductibles
- Self-Insurance.

Several other states either require periodic certification of the competitiveness of the insurance market or mandate other reports on insurance availability under open rating. These states include, among others; Maryland, Florida, Illinois, Rhode Island, Oregon, and Texas.

Price Competition

While declining claim costs and mandated premium rate and expense provision reductions from the 1993 legislation initiated the decline in the total California workers’ compensation premium, open rating apparently created competition among insurers seeking to retain or add to their

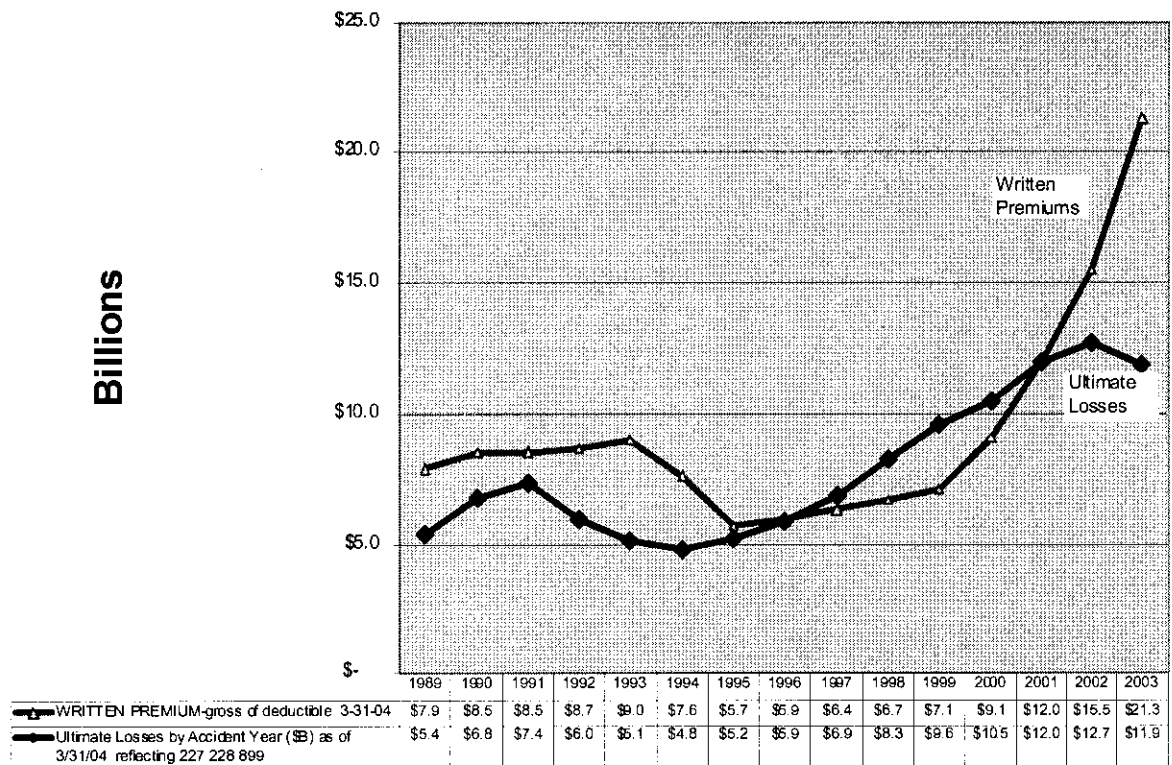
market share. Rate deregulation came at a time when premiums had been greatly exceeding costs. There were other concurrent reasons that helped fuel the price drop, including low reinsurance rates, active and profitable investment of reserves, and influx of capital from health care insurers who thought some integration of benefits (health care and workers' compensation) was coming and that they would get some comparative advantage by entering the workers' compensation market through merger and acquisition. Some insurers attempted to increase their market share by writing coverage at low prices that eventually proved to be below loss costs. This deregulated market kept premium rates relatively low throughout the latter half of the 1990s, even though losses were no longer declining.

In addition, the commercial market gained the ability to solicit and quote public agencies for the first time. Prior to open rating, a public agency could either self-insure or insure with State Fund. Since so few public agencies were insured previously, the WCIRB data was scant and probably not representative, especially in urban areas. This caused some significant under-pricing, which led public agencies, especially schools, to go back to full insurance while rates were relatively low. Unlike the private employers who were self-insured, public employers could jump back and forth more easily because there was no requirement for public agencies to post a bond on self-insured liability. [8 CCR 15210(a)]

Total premium volume did begin to edge up after 1995, as California's booming economy increased covered payroll by adding many new jobs. However, losses were mounting as well. By 1997 industry wide losses exceeded premiums, and the situation for many insurers was deteriorating. (Chart A.) As the link between the price of insurance and loss costs became more and more tenuous, some insurers left the state, others ceased writing workers' compensation or were merged or acquired by other carriers, and still others (including several of the largest insurers in the state) became insolvent and had to be taken over or supervised by the state. As a result, the workers' compensation market became much more concentrated than in the past, with State Fund and only a few insurers, mostly large national carriers, accounting for the lion's share of statewide premium.

CHART A

Premiums and Losses (insured) California 1989-2003



Profitability of Insurance Companies

Profitability of California workers' compensation insurance companies decreased after the deregulation of rates, according to measurements by the National Association of Insurance Commissioners. In the late 1980s, workers' compensation insurers in California had profit levels of nearly three times the national average. With open rating, California insurers have had lower than average profit margins, and had the lowest returns in the nation during the late 1990s. Several indicators including those discussed below point to a decrease in the profitability of the insurance industry.

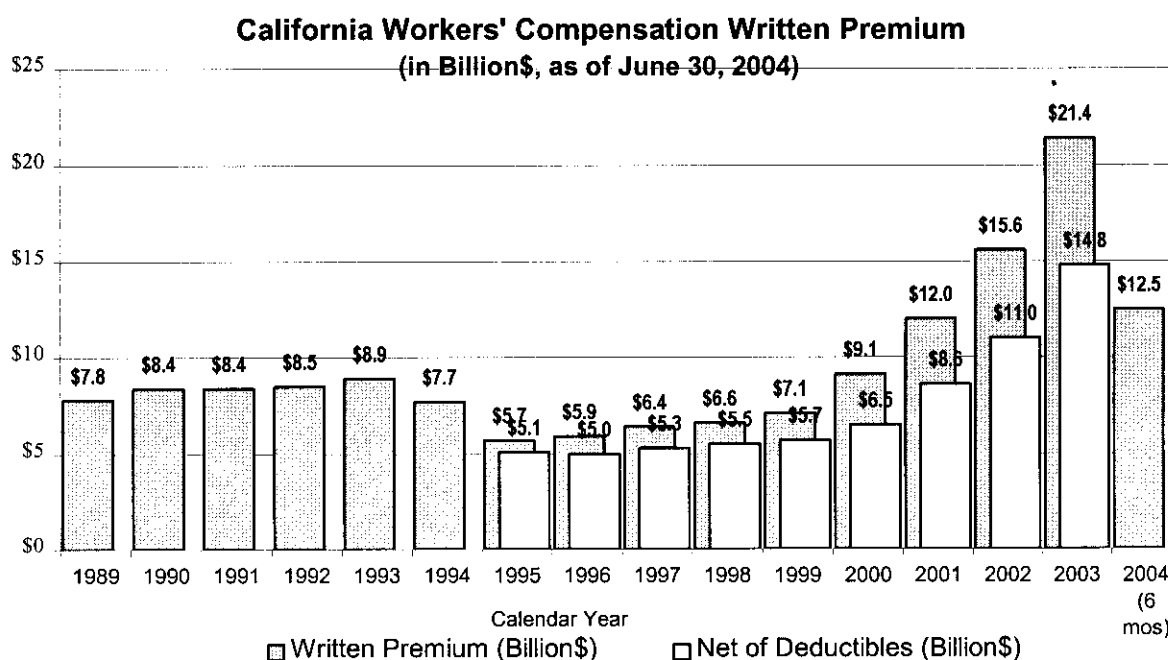
Premiums

Workers' compensation insurance premiums declined immediately after the 1993 reform and the elimination of the minimum rate law. The total written premium declined from a high of \$8.9 billion in 1993 to a low of \$5.7 billion (\$5.1 billion net of deductible) in 1995. The written premium grew slightly from 1996 to 1999 due to growth of insured payroll, an increase in economic growth, and movement from self-insurance to insurance and other factors, rather than increased rates. Even with over a million new workers covered by the system, the total premium paid by employers remained below the level seen at the beginning of the decade.

At the end of 1999, the Insurance Commissioner approved an 18.4% pure premium rate increase for 2000, while rates remained less than two-thirds of the 1993 level. The Insurance Commissioner approved a 10.1% increase in the advisory rates for 2001; a 10.2% increase for January 1, 2002 policies; and a 10.1% increase for policies incepting after July 1, 2002.

Chart B below shows the California workers' compensation written premium since the 1993 reforms, exclusive of dividends and the box below Chart B contains the history of the workers' compensation pure premium rates since the 1993 reforms.

CHART B



Source: Workers' Compensation Insurance Rating Bureau of California

History of the workers' compensation pure premium advisory rates since the 1993 reform legislation

1993

Insurance Commissioner approved:

Pure premium rates reduction of 7% effective July 16, 1993 due to a statutory mandate.

1994

WCIRB recommendation: No change in pure premium rates.

Insurance Commissioner approved: Two pure premium rate decreases: a decrease of 12.7% effective January 1, 1994 and a second decrease of 16% effective October 1, 1994.

1995

WCIRB recommendation: 7.4% decrease from the pure premium rates that were in effect on January 1, 1994.

Insurance Commissioner approved:

A total 18% decrease to the pure premium rates in effect on 1/1/94 was approved effective January 1, 1995 (including the already approved 16% decrease effective October 1, 1994).

1996

WCIRB recommendation: 18.7% increase in pure premium rates.

Insurance Commissioner approved: An 11.3% increase effective January 1, 1996.

1997

WCIRB recommendation: 2.6% decrease in pure premium rates.

Insurance Commissioner approved: A 6.2% decrease effective January 1, 1997.

1998

WCIRB recommendation: The initial recommendation for a 1.4% decrease was later amended to a 0.5% increase.

Insurance Commissioner approved: A 2.5% decrease effective January 1, 1998.

1999

WCIRB recommendation: The WCIRB initial recommendation of a 3.6% pure premium rate increase for 1999 was later amended to a recommendation for a 5.8% increase.

Insurance Commissioner approved: No change in pure premium rates for 1999.

2000

WCIRB recommendation: An 18.4% increase in the pure premium rate for 2000.

Insurance Commissioner approved: An 18.4% increase effective January 1, 2000.

2001

WCIRB recommendation: The WCIRB initial recommendation of a 5.5% increase in the pure premium rate was later amended to a recommendation for a 10.1% increase.

Insurance Commissioner approved: A 10.1% increase effective January 1, 2001.

2002

WCIRB recommendation: The WCIRB's initial recommendation of a 9% increase in the pure premium rate was later amended to a recommendation for a 10.2% increase. WCIRB filed a mid-term recommendation that pure premium rates be increased by 10.1% effective July 1, 2002 for new and renewal policies with anniversary rating dates on or after July 1, 2002.

Insurance Commissioner approved: A 10.2% increase effective January 1, 2002. On May 20, 2002, the Commissioner approved a mid-term increase of 10.1% effective July 1, 2002.

2003

WCIRB recommendation: The WCIRB submitted an amended filing of a proposed 13.4% increase in pure premium rates with respect to new and renewal policies with anniversary rating dates on or after January 1, 2003. They also submitted a filing of a proposed 5.9% increase in the pure premium rates applicable to the unexpired portion of 2002 policies as of January 1, 2003. The WCIRB filed a midterm recommendation for increases of 10.6% for policies effective 7/1/2003.

Insurance Commissioner approved: A 10.5% increase for new and renewal policies effective 1/1/03, as well as a 4.9% increase for unexpired portions of 2002 policies. 7.2% increase was approved for new and renewal policies effective 7/1/2003.

2004

14.9 percent decrease in pure premium rates approved by Insurance Commissioner for policies incepting 1/1/04.

WCIRB recommendation: The initial WCIRB recommendation had been for a 12% increase in pure premium rates prior to passage of SB 228/AB 227. WCIRB submitted an amended filing of a proposed 17.44% decrease in pure premium rates with respect to new and renewal policies with anniversary rating dates on or after July 1, 2004.

Insurance Commissioner approved: The Commissioner approved a rate decrease, effective 1/1/03; a 20.9% decrease for new and renewal policies effective 7/1/04

Objective and Scope of the Study

The California workers' compensation insurance system has been through several recent episodes of reform since deregulation of the insurance market became effective in 1995. The first set of changes in 2002 substantially increased benefits to injured workers, while beginning to address medical care costs, return to work incentives and enforcement against illegally uninsured employers. The bill also allowed settlement of the vocational rehabilitation benefit, repealed some outdated dispute resolution notions and revamped the system for auditing and enforcing standards on claims operations. The major efforts to reduce system costs took place beginning in 2003.

The objectives of this study are to understand the effects of the workers' compensation legislation of 2003 and 2004 on workers' compensation insurance rates. While the legislation creating the study does not specifically mention the 2002 reforms, clearly an understanding of the impact of that legislation on the system is important to set the context for the subsequent sets of reforms.

The study mandated by Labor Code section 138.65 is intended to identify and quantify the savings generated by the series of reforms. The study will review existing evidence to determine if the savings generated by the legislative changes are being reflected in insurance rates, and if so, by how much. The study will look at how the savings generated by the legislation are being used to replenish surpluses for workers' compensation insurance coverage. The study will look at the effects that the reforms had on the marketplace and competition, as well as on rates. The study will review the experience of the Workers' Compensation Insurance Rating Bureau (WCIRB) and the Department of Insurance in recommending premium rates that were accurate and adequate. And, finally, the study must be comprehensive in scope and mindful of the present state of the process that leads to ratesetting, so that it can be helpful to the Governor, the Insurance Commissioner, and the Legislature in their deliberations and development of alternative strategies concerning the appropriateness and form of any changes to the present deregulated system.

The study is intended to look at the effects on insurance rates of the last two years of workers' compensation reform. The first half of the major workers' compensation reforms – Senate Bill 228 and Assembly Bill 227 – were passed in 2003 and became law on January 1, 2004. Some of the key reforms built into this legislation include: establishment of an outpatient fee schedule indexed at 120 percent of Medicare, adoption of interim utilization guidelines for medical treatment, retroactive repeal of the treating physician's presumption, limits on chiropractic and physical therapy treatments to no more than 24 per claim, a new pharmaceutical fee schedule, a

generic drug requirement, minimum standards for claims examiners, stronger penalties on fraud, a new alternative dispute resolution (carve out) program, 100% user funding of the workers' compensation system, and repeal of the vocational rehabilitation program.

A second major workers' compensation package - SB 899 - became law on April 19, 2004. Some of the key reforms built into this legislation include: reform of permanent disability benefits including apportionment to past injuries, and use of the American Medical Association (AMA) guidelines for the determination of impairment, establishment of new return-to-work provisions, changes enhancing employer control of medical care, incorporation of medical provider networks and increased use of independent qualified medical evaluators, limiting temporary disability benefits to two years, rationalization of the penalty structure, complete elimination of the treating physician presumption, immediate medical benefits, expansion of carve-out programs, and critical clean-up of Assembly Bill 227 and Senate Bill 228.

The study mandated by Labor Code section 138.65 will evaluate the effect of these reforms on workers' compensation insurance rates. The successful bidder will be required to submit a report that will assist the Governor and the Insurance Commissioner in making recommendations for regulatory, statutory, and market reforms, including, but not limited to the appropriateness of regulating workers' compensation insurance rates. The study should also assist the Governor and Insurance Commissioner in determining whether premium rates appropriately reflect the savings and the timing of the savings, and if the rates do not, propose options for how rates should be regulated and by whom.

Specific topics to be addressed are included in the statute.

ESSENTIAL ELEMENTS REQUIRED IN THE PROPOSAL:

- Identify and quantify the savings generated by the reforms.
This requires description and documentation of provisions in 2003 and 2004 statutes that affect past, present and future losses. Consideration should also be given to the potential impacts of regulatory and/or judicial decisions in determining ultimate savings.
- Review workers' compensation insurance rates to determine the extent to which the reform savings were reflected in premium rates of policyholders.
This may include reviewing the rates; giving consideration to an insurer's premium revenue, claim costs, and surplus levels. This may include collecting information for a baseline period prior to reforms, as well as during and after reform period on all policy years.
- Assess the effect of the reform savings on replenishing surpluses for workers' compensation insurance coverage.
This may include effects of reform on past policy years and adequacy of reserves for past years, and a description of the expected payment stream over time for long tail claims. This may also include a discussion of any proposed methodology of identifying surplus allocations for workers' compensation risks within multi-line and/or multi-state insurance operations.

- Review the effects of the reforms on the workers' compensation insurance rates, marketplace, and competition.

This may include description of entry and exit of insurers pre- and post-reform; design and implementation of a survey of brokers on changes in the marketplace; with attention paid to differences in size, industry, geography and workplace hazard; and a description of the changes in the market share distribution within work classifications for the study period. This may also include studies of the changes over time, whether voluntary or externally imposed, of discount and schedule rating plans. This task may include an interview process involving insurer actuaries or review of rate adequacy studies of insurance carriers. Discussion of means of getting such access may be included in the proposal. In addition, this section may include discussion of the factors influencing the attraction of capital into the insurance market, and decision making processes of new entrants and venture capitalists considering expansion in the state. The study may include an evaluation of the role of reinsurance in workers' compensation insurance marketplace after deregulation, including its effect on the cost and availability of insurance and the ability to respond to catastrophic losses. Finally, the study may include an evaluation of the effect of external factors on rate levels and (de)stabilization of the market, including, but not limited to, earthquake and terrorism exposures (including the effect of the Federal Terrorism Risk Insurance Act)

- Review the adequacy and accuracy of the pure premium rate as recommended by the Workers' Compensation Insurance Rating Bureau and the pure premium rate adopted by the Insurance Commissioner.

This task may include review of the process of determining rate recommendations in California and in other representative states, contrasting the existing system with alternative methods, and an analysis of the adequacy and accuracy of present methods. The analysis may identify weaknesses in the present methodology and process and suggest improvements. It may also include evaluation of other state or insurance ratesetting processes involving public advocates, intervenors, or other participants, which are relevant to improving the open exchange of information about costs, premium rates, economic conditions, and other factors. The analysis may include a discussion of the differences between suggested pure premium rates and ultimate rates charged, and modeling of financial results that might have occurred if carriers had adopted WCIRB's pure premium rates plus standard expense multipliers.

Work Approach

Information for this study may be gathered through the following activities:

1. Review of all workers' compensation legislation passed during the 2003 and 2004 legislative sessions to determine if it should be evaluated for purposes of this project.
2. Literature review including all five (5) volumes of the Workers' Compensation Rate Study Commission Final Report of March 1992. To the extent the

- documents are available, the contractor will also review the background materials and final drafts of Insurance Market studies commissioned by the Commission on Health and Safety and Workers' Compensation.
3. Direct review of experience of other states and/or review of studies done by other states on ratemaking, regulatory process, effect of reforms on insurance markets, etc.
 4. A review of literature on open rating and insurance market competition.
 5. Insurers shall submit to the contracting organization premium revenue, claims costs, and surplus levels in different timing aggregates as established by the contracting organization, but at least quarterly and annually. The contracting organization may also request additional materials when appropriate. The contracting organization shall maintain strict confidentiality of the data. An insurer that fails to comply with the reporting requirements of this subdivision is subject to Section 11754 of the Insurance Code
 6. Interviews with insurers (especially actuaries and underwriters), regulators including California Department of Insurance (CDI), and the Workers' Compensation Insurance Rating Bureau (WCIRB), employers, and Division of Workers' Compensation (DWC) auditors.
 7. Interviews and/or records review, if access can be negotiated, of a statistically valid cross section of employers to determine changes in classification, pricing, availability of markets
 8. Review and analysis of type, scope and magnitude of discount plans offered by insurers since deregulation, aggregating effects of schedule rating, expense modifiers (loss cost multipliers) and other factors. The analysis should use individual company rate filings and rating plans for determining the divergence between individual company rates and rates proposed by the WCIRB.
 9. An analysis of DWC Audit Unit data on claims handling performance, and the trends in performance since the introduction of deregulation and the rapid variation of insurer caseloads.
 10. An analysis of appropriate insurance market data concerning trends in solvency, reserves, and market share of different types of carriers.
 11. Discussion and analysis of reserving practices within California's workers' compensation insurance industry, including means of determining adequacy of reserves at times of significant inflation, and determination of reasonableness of reserving process.

The Division will award the contract to a single entity to accomplish the mandate; however the winning bidder may award subcontracts to assure that each primary study task is completed within the time allotted.

Deliverables

1. Each contractor shall provide monthly written progress reports on the fifth working day of the month, beginning one month after the initial contract start date, until completion of the project; a study progress report on or before September 1, 2005; a draft of the final study report on December 1, 2005 and a final study report on or before December 20, 2005.

The progress reports are to address the progress made, findings to date, problems encountered by the contractor, and a comparison of estimated versus actual project costs to date, by task. Deviation of more than ten percent (10%) from projected costs must be requested in advance by the contractor. Deviations exceeding ten percent (10%) that were not approved in advance may result in contractual non-compliance measures being taken. Only internal budgetary adjustments will be permitted; the total cost cannot exceed the cost specified in the contract.

The monthly progress reports are designed to provide a formal vehicle for written communication from the contractor to the Division of Workers' Compensation prior to the issuance of the final report. They will be superseded in their entirety upon issuance of the final report.

Ten copies of all reports shall be forwarded to:

Andrea Lynn Hoch
Administrative Director, Division of Workers' Compensation
Department of Industrial Relations
455 Golden Gate Avenue, 9th Floor
San Francisco, CA 94102

2. In addition to the written reports required, the contractor(s) will be required to provide monthly oral briefings to the Administrative Director or her designee(s), commencing after the third week of work. Such monthly oral briefings may be waived if found not to be necessary by the Administrative Director.
3. After the issuance of the final study report, the contractor shall allow adequate time to formally present final findings and recommendations to the Administrative Director and staff. This presentation must take place within six weeks after submission of the final study report at a mutually agreeable time and place.
4. The final study report must include, at minimum, detailed information on topics discussed under Objective and Scope of the Study, and in Work Approach.

Payment

In consideration of the above services being rendered in an acceptable manner, the State shall pay the contractor in arrears based upon invoices submitted to the State by the Contractor.

Monitoring of Contract Performance

1. Andrea Lynn Hoch, Administrative Director, Division of Workers' Compensation is designated the Project Coordinator. This person will have the overall responsibility to monitor and evaluate the performance of the Contractor in conducting the study for the Division under this agreement. The Project Coordinator may delegate her authority under this contract to a staff member.
2. The Project Coordinator, or designee, will review all reports for technical quality and compliance with the contract terms. Specifications for revisions necessary to remove discrepancies will be set forth by the Project Coordinator, or designee, in writing and are binding on the contractor insofar as the specification do not exceed the scope of the work required in the contract. The contractor must revise and deliver to the Project Coordinator within fifteen (15) working days any product deemed unacceptable by the Project Coordinator.
3. Any product submitted a second time and found unacceptable by the Project Coordinator will be rejected and either: (1) the cost of revising the product to make it acceptable to the Project Coordinator will be absorbed by the contractor; (2) the cost of work not satisfactorily performed will be withheld; or (3) the contract will be canceled for non-performance. A total of ten percent of the total contract amount will be withheld pending submission and acceptance of the final report. This amount will be paid within two weeks of report submission upon receipt of an appropriate invoice, unless written notification of non-compliance is provided by the Project Coordinator.
4. Any information developed for the purposes of this evaluation shall remain in the public domain. In addition, if the contractor develops a database for use in conducting this study, a computer-usable copy shall be provided to DWC upon completion of the final report.
5. The contractor is required to obtain prior approval from the Project Coordinator before changing project management personnel or professional/technical staff members. The qualifications of proposed staff replacements must be reviewed and approved by the Project Coordinator prior to the assignment.

B) Minimum Qualifications for Proposers

Respondent's qualifications, including past experience in conducting studies and knowledge of workers' compensation and insurance ratesetting, actuarial analysis, rate regulation or regulatory oversight will be evaluated. All pertinent information in this regard should be provided as part of the "Related Experience and References" portion of Section IV.C. Content of Written Proposal. The contractor for this evaluation should ideally have the following characteristics:

- a) An established reputation for independent, nonpartisan, empirical research and analysis of the highest quality.

- b) Demonstrated breadth of experience conducting actuarial and economic research and analysis on insurance industry, markets, and regulations, with particular attention to workers' compensation insurance.
- c) Experience in researching the California workers' compensation market.
- d) Demonstrated ability to handle large data sets pertaining to workers' compensation insurance.
- e) An ability to complete all agreed-upon research within the time allotted. (Because of legislative direction, the time period of study is very condensed.)
- f) Demonstrated ability to communicate policy analytic findings in useful forms to policy makers, business decision makers, and the general public.
- g) Provision of at least 3 references. Preferred contacts may include a current or past insurance regulator.

C) Proposal Requirements and Information

1) Key Action Dates

<u>Event</u>	<u>Date</u>
RFP available to prospective proposers	January 26, 2005
Written Question Submittal Deadline	February 11, 2005
Issue Response to Questions	February 16, 2005
Pre-proposal Conference (attendance optional)	February 22, 2005
Final Date for Proposal Submission	4:30 pm March 10, 2005
Bid Opening	9:30 am March 16, 2005
Notice of Intent to Award	March 17, 2005
Last Day to Protest Award	March 24, 2005
Proposed Start of the Contract	April 15, 2005

2) Optional Pre-Proposal Conference

a) An optional conference pre-proposal conference for prospective bidders is scheduled at 1:00 pm on February 22, 2005 at the Civic Center Complex, 455 Golden Gate Avenue, San Francisco, California for the purpose of discussing concerns regarding this RFP. The room number for the conference will be prominently posted in the lobby at 455 Golden Gate Avenue on the morning of the conference.

b) In the event a potential proposer is unable to attend the mandatory pre-proposal conference, an authorized representative may attend on their behalf. The representative may only sign-in for one (1) company. Subcontractors may not represent a potential proposer at a mandatory pre-proposal conference.

c) For contractors who need assistance due to a physical impairment, a reasonable accommodation will be provided by the awarding agency upon request for the pre-proposal conference. The Contractor must call Andrea Hoch or her designee at 415-703-4660 no later than the fifth working day prior to the scheduled date and time of the pre-proposal conference to arrange for a reasonable accommodation.

d) An optional telephone conference for prospective bidders can be conducted at the agency's discretion. A telephone conference may be requested in lieu of your physical attendance at the optional conference on February 22, 2005, subject to criteria listed below:

- (1) Contractor must call awarding agency contact, Andrea Lynn Hoch or her designee at (415) 703-4660 no later than 5:00 p.m. five working days prior to the scheduled date and time of the bidder's conference;
- AND
- (2) Your business is located outside a 120-mile radius of the conference location.

3) Work Plan and Work Schedule Requirements

The proposer shall develop a work plan or schedule for task completion. Identify each major task, necessary subtask, and/or specific milestones by which progress can be measured and payments made.

- a) Project Personnel
(List all personnel who will be working on the project and their titles and job descriptions)
- b) Facilities and Resources
(Explain where the services will be provided and what type equipment is needed to perform the services)

- 4) **Cost Detail Format and Requirement** The proposed work should be broken down into the outline in Work Plan and Work Schedule for the purpose of this proposal. The total costs of all tasks and milestones for this phase of the study cannot exceed **\$850,000.00**. Use the Sample Cost Proposal Worksheet (Attachment 3) as a guide in preparing your cost proposal.

5) Submission of Proposal

Proposals should provide straightforward and concise descriptions of the proposer's ability to satisfy the requirements of this RFP. The proposal must be complete and accurate. Omissions, inaccuracies or misstatements may be cause for rejection of a proposal.

1. Introduction

It is important that the proposal submitted by a bidder comply with the format and content requirements detailed in this section. Format instructions must be

adhered to, all requirements in the RFP must be responded to, and all requested data must be supplied.

2. Content of Written Proposal

a) The Written Proposal must contain the following sections: Table of Contents, Introduction, General Approach, Work Plan, Management and Staffing, Related Experience and References, and Costs. Each section should be well organized, brief and to the point. Proposals which do not address the objectives and are not clear and succinct, and particularly those which substitute length for substance, will not be favorably received.

- The Table of Contents will identify major points of discussion by page.
- The Introduction will serve to demonstrate to the reviewers the bidder's understanding of the study's audience, context, purpose, objective, and intended products.
- The General Approach will provide an overview of the bidder's proposed design for the study. The design should be clearly related to the material presented in the Introduction and should contain a focused discussion of the study areas specified in this RFP.

An overview of the methods to be used in conducting the study, as well as plans for analysis and reporting, should be included. *It is highly recommended that the bidders outline an analytical framework for choosing among alternative proposals, including some of the key alternatives and criteria that they intend to use in the analysis of the advantages of various market structures.*

- The Work Plan will describe in detail the specific methods, tasks, and activities proposed to be undertaken in order to accomplish the study objectives and produce the required deliverables.

Appropriate justifications will be provided for each method selected and included in the plan.

Any anticipated theoretical or practical problems associated with the completion of each task should also be discussed, and solutions, alternatives, or contingency plans related to this problem should be proposed, as appropriate.

Finally, the work plan should include:

- i. Identification of all tasks and work items, with initiation and completion dates;
- ii. Responsibility for tasks and work items;
- iii. Proposed staff-loading for all tasks and work items;
- iv. Proposed specific personnel assignments to support proposed staffing;
- v. Number of total personnel hours by task; and
- vi. Identification of the specific elements, response requirements, or portion of deliverable products and services that each task or work item supports.

- The Management and Staffing section will present a plan for the internal management of contract work that will ensure orderly and timely accomplishment of the tasks set forth in the bidder's proposed work plan.

The bidder should also include in this section a staff organization plan which identifies proposed staff positions and provides for each one the percent of full-time equivalency and a brief job description. The plan should make clear the relationship of each position to the work plan, and should be illustrated with a staff organization chart.

The bidder will also identify the individuals proposed to fill professional or technical positions in the staffing plans (including subcontractors, if any) and provide for each person a resume that is sufficiently detailed to allow an evaluation of the person's competency and expertise.

- The Related Experience and References section will describe the experience of the bidder in conducting similar or comparable studies and identify those members of the proposed staff who have participated in these studies (including the role and responsibilities of each).

A specific reference to a client's contact person (with current telephone number) for each similar or comparable study should be included in this section. This section should also include abstracts of the similar or comparable work.

Any facilities and equipment available for and useful to the completion of the study should also be described in this section. If new equipment is required to carry out this contract, and it is purchased with monies from this contract, the equipment becomes property of the state upon termination or completion of this contract.

- The Costs section shall detail the proposed costs associated with the completion of each task identified and with all tasks combined. These costs shall include the number of personnel hours associated with each task, with separate identifications for professional and clerical staff hours. Standard line items of expense should be used to identify staff salaries, benefits, operating expenses, travel and per diem, and overhead. An outline format of the cost section is provided in Attachment 3.

Travel expenses and per diem rates must be set at the rate specified by the Department of Personnel Administration for similar employees or verification must be supplied that indicated such rates are not available to the contractor.

Insurance is required if hazardous activities are to be conducted in the performance of a contract, including transporting persons by any means of transportation. The contractor will be required to demonstrate proof of automobile liability insurance and public liability insurance.

The cost section must include the contract terms of the bidder and provide the names, addresses, and telephone numbers of those authorized to negotiate for the bidder. The contract terms must be acceptable to the State in order for the proposal to be eligible for award.

Any equipment purchased in order to complete this project will become the property of the Department upon completion of the contract and must be delivered to the Project Coordinator within 15 days after completion. Final invoice will not be paid until such equipment is delivered.

- b) The proposal package should be prepared in the least expensive method.
- c) All proposals must be submitted under **sealed** cover and sent to Department of Industrial Relations by dates and times shown in Section C, Proposal Requirements and Information, Item 1) Key Action Dates (page 17). Proposals received after this date and time will not be considered.
- d) A minimum of 10 copies of the proposal must be submitted.
- e) The original proposal must be marked "ORIGINAL COPY". All documents contained in the original proposal package must have original signatures and must be signed by a person who is authorized to bind the proposing firm. All additional proposal sets may contain photocopies of the original package.
- f) The proposal envelopes must be plainly marked with the RFP number and title, your firm name and address, and must be marked with "DO NOT OPEN", as shown in the following FICTITIOUS EXAMPLE:

<p>Able Insurance Company 123 Affordable Avenue San Francisco, CA 99999 RFP 05-001 Study of Effects of Legislative Reforms on Workers' Compensation Insurance Rates DO NOT OPEN</p>
--

- g) If the proposal is made under a fictitious name or business title, the actual legal name of proposer must be provided.
- h) Proposals not submitted under sealed cover and marked as indicated may be rejected.

- i) All proposals shall include the documents identified in Section E, Required Attachment Checklist (see page 29). Proposals not including the proper "required attachments" shall be deemed non-responsive. A non-responsive proposal is one that does not meet the basic proposal requirements.
- j) Mail or deliver proposals to the following address:

U.S. Postal Service Deliveries Hand Deliveries
(UPS, Express Mail, Federal Express)

Department of Industrial Relations
Attn: Aurora Tison, Contract Manager
455 Golden Gate Avenue, 8th Floor
San Francisco, CA 94102

- k) Proposals must be submitted for the performance of all the services described herein. Any deviation from the work specifications will not be considered and will cause a proposal to be rejected.
- l) A proposal may be rejected if it is conditional or incomplete, or if it contains any alterations of form or other irregularities of any kind. The State may reject any or all proposals and may waive an immaterial deviation in a proposal. The State's waiver of an immaterial deviation shall in no way modify the RFP document or excuse the proposer from full compliance with all requirements if awarded the agreement.
- m) Costs incurred for developing proposals and in anticipation of award of the agreement are entirely the responsibility of the proposer and shall not be charged to the State of California.
- n) An individual who is authorized to bind the proposing firm contractually shall sign the Attachment 2, Proposal/Proposer Certification Sheet, page 30. The signature must indicate the title or position that the individual holds in the firm. An unsigned proposal may be rejected.
- o) A proposer may modify a proposal after its submission by withdrawing its original proposal and resubmitting a new proposal prior to the proposal submission deadline as set forth in the Key Action Dates. Proposal modifications offered in any other manner, oral or written, will not be considered.
- p) A proposer may withdraw its proposal by submitting a written withdrawal request to the State, signed by the proposer or an authorized agent in accordance with h) above. A proposer may thereafter submit a new proposal prior to the proposal submission deadline. Proposals may not be withdrawn without cause subsequent to proposal submission deadline.

- q) The awarding agency may modify the RFP prior to the date fixed for submission of proposals by the issuance of an addendum to all parties who received a proposal package.
- r) The awarding agency reserves the right to reject all proposals. The agency is not required to award an agreement.
- s) Before submitting a response to this solicitation, bidders should review, correct all errors and confirm compliance with the RFP requirements.
- t) Where applicable, proposer should carefully examine work sites and specifications. No additions or increases to the agreement amount will be made due to a lack of careful examination of work sites and specifications.
- u) More than one proposal from an individual, firm, partnership, corporation or association under the same or different names, will not be considered.

- v) The State does not accept alternate contract language from a prospective contractor. A proposal with such language will be considered a counter proposal and will be rejected. The State's General Terms and Conditions (GTC) are not negotiable.
- w) No oral understanding or agreement shall be binding on either party.

6) Evaluation Process

- a) At the time of proposal opening, each proposal will be checked for the presence or absence of required information in conformance with the submission requirements of this RFP.
- b) Proposals that contain false or misleading statements, which fail to provide references, or which do not support an attribute or condition claimed by the proposer, may be rejected.
- c) Award, if made, will be to the lowest-priced responsible proposal.
- d) Proposal Evaluation
The proposals that meet the minimum qualifications will be evaluated and scored according to the criteria indicated below. (see Exhibit C-6-1, page 28) A minimum of **85** points must be achieved in this phase to be considered responsive. (A responsive proposal is one which meets or exceeds the requirements stated in this RFP.)

Rating/Scoring Criteria

Maximum Possible Points

Phase I – Written Proposal

1. Response to Requirements

65 points

Proposals will be evaluated based upon the respondent's understanding of DWC's needs as expressed in this RFP and the development and presentation of a work plan to address those needs. The proposal will be evaluated on its overall approach and its specific methods, tasks, and activities to determine the extent to which they are sound, clear, feasible, and responsive to the requirements of this RFP. Special consideration will be given to those proposals demonstrating an awareness of any conceptual and/or methodological problems surrounding the study and the soundness of the ways proposed to address these problems.

2. Experience and Expertise

25 points

Respondent's qualifications, including past experience in conducting studies and knowledge of workers' compensation and permanent disability benefit issues will be evaluated. All pertinent information in this regard should be provided as part of the "Related Experience and References" portion of Section IV.C. Content of Written Proposal. The contractor for this evaluation should have the following characteristics:

- a) An established reputation for independent, nonpartisan, empirical research and analysis of the highest quality.
- b) Demonstrated breadth of experience conducting actuarial and economic research and analysis on insurance industry, markets, and regulations, with particular attention to workers' compensation insurance.
- c) Experience in researching the California workers' compensation market.
- d) Demonstrated ability to handle large data sets pertaining to workers' compensation insurance.
- e) An ability to complete all agreed-upon research within the time allotted. (Because of legislative direction, the time period of study is very condensed.)
- f) Demonstrated ability to communicate policy analytic findings in useful forms to policy makers, business decision makers, and the general public.
- g) Provision of at least 3 references. Preferred contacts may include a current or past insurance regulator.

3. Quality of Proposal Response

10 points

Respondents will be evaluated based on the readability, organization, and specificity of the proposal submitted and the ability of the respondent to communicate concepts clearly. The proposal will be viewed as a sample of the type of product the Division of Workers' Compensation could expect to receive from the respondent, if selected.

Total Possible Score

100 points

7) Award and Protest

- a) Notice of the proposed award shall be posted in a public place in the office of Dept. of Industrial Relations, 455 Golden Gate Avenue, 8th Floor, San Francisco, CA for five (5) working days prior to awarding the agreement..

- b) If any proposer, prior to the award of agreement, files a protest with the Department of Industrial Relations, Attn: Aurora Tison, Contract Manager, 455 Golden Gate Avenue, 8th Floor, San Francisco, CA and the Department of General Services, Office of Legal Services, 707 Third Street, 7th Floor, Suite 7-330, West Sacramento, CA 95605, on the grounds that the (protesting) proposer would have been awarded the contract had the agency correctly applied the evaluation standard in the RFP, or if the agency followed the evaluation and scoring methods in the RFP, the agreement shall not be awarded until either the protest has been withdrawn or the Department of General Services has decided the matter. It is suggested that you submit any protest by certified or registered mail.
- c) Within five (5) days after filing the initial protest, the protesting proposer shall file with the Department of General Services, Office of Legal Services and the Dept. of Industrial Relations, a detailed statement specifying the grounds for the protest.
- d) Upon resolution of the protest and award of the agreement, Contractor must complete and submit to the awarding agency the Payee Data Record (STD 204), to determine if the Contractor is subject to state income tax withholding pursuant to California Revenue and Taxation Code Sections 18662 and 26131. This form can be found on the Internet at www.osp.dgs.ca.gov under the heading FORMS MANAGEMENT CENTER. No payment shall be made unless a completed STD 204 has been returned to the awarding agency.
- e) Upon resolution of the protest and award of the agreement, Contractor must sign and submit to the awarding agency, *page one (1)* of the Contractor Certification Clauses (CCC), which can be found on the Internet at www.dgs.ca.gov/contracts.

8) Disposition of Proposals

- a) Upon proposal opening, all documents submitted in response to this RFP will become the property of the State of California, and will be regarded as public records under the California Public Records Act (Government Code Section 6250 et seq.) and subject to review by the public.
- b) Proposal packages may be returned only at the proposer's expense, unless such expense is waived by the awarding agency.

9) Agreement Execution and Performance

- a) Performance shall start not later than (5) days, or on the express date set by the awarding agency and the Contractor, after all approvals have been obtained and the

agreement is fully executed. Should the Contractor fail to commence work at the agreed upon time, the awarding agency, upon five (5) days written notice to the Contractor, reserves the right to terminate the agreement. In addition, the Contractor shall be liable to the State for the difference between Contractor's Proposal price and the actual cost of performing work by another contractor.

- b) All performance under the agreement shall be completed on or before the termination date of the agreement.

Preference Programs

- 1) **Small Business Preference** - www.pd.dgs.ca.gov
- 2) **Target Area Contract Preference Act (TACPA)** - www.pd.dgs.ca.gov/disputes
- 3) **Local Agency Military Base Recovery Area (LAMBRA) Act** - www.pd.dgs.ca.gov/disputes
- 4) **Enterprise Zone Act (EZA)** - www.osmb.dgs.ca.gov/eza/program.htm

E) Required Attachments

1) DVBE Requirements

An explanation of the **Disabled Veteran Enterprise Program (DVBE) requirements** can be found at the Internet web site www.pd.dgs.ca.gov/dvbe. **Select "DVBE Resource Packet" under "Quick Links"**.

The DVBE package and the required submittal forms can be found at the Internet website www.pd.dgs.ca.gov and select DVBE Participation Solicitation Package Attachment and Summary.

Attachment C-6-1

EVALUATION FORM FOR WRITTEN PROPOSAL
Study to Evaluate Effects of Legislative Reforms on Insurance Rates

Name of Bidder _____

Contact Person _____

RESPONSE TO REQUIREMENTS

- Identification and quantification of the savings generated by the reforms. **Maximum Points Allowed** 10 points **Score** _____
- Review of workers' compensation insurance rates to determine the extent to which the reform savings were reflected in premium rates of policyholders. **Maximum Points Allowed** 10 points **Score** _____
- Assessment of the effect of the reform savings on replenishing surpluses for workers' compensation insurance coverage. **Maximum Points Allowed** 5 points **Score** _____
- Review of the effects of the reforms on the workers' compensation insurance rates, marketplace, and competition. **Maximum Points Allowed** 20 points **Score** _____
- Review of the adequacy and accuracy of the pure premium rate as recommended by the Workers' Compensation Insurance Rating Bureau and the pure premium rate adopted by the Insurance Commissioner. **Maximum Points Allowed** 20 points **Score** _____

EXPERIENCE AND EXPERTISE

- Detailed statement from the respondent describing how the respondent meets the minimum qualifications, including past experience, depth of knowledge, ability to communicate results, experience in alternative processes, and ability to complete work in timely fashion (See p. 17 – Minimum qualifications for proposers). **Maximum Points Allowed** 25 points **Score** _____

QUALITY OF PROPOSAL

- Quality of proposal presentation based on organization, clarity, and specificity of response. **Maximum Points Allowed** 10 points **Score** _____

Total Points Awarded (100 points maximum) _____

MINIMUM SCORE for Written Proposal to be acceptable: 85 points

ATTACHMENT 1

REQUIRED ATTACHMENT CHECK LIST

A complete proposal or proposal package will consist of the items identified below.

Complete this checklist to confirm the items in your proposal. Place a check mark or "X" next to each item that you are submitting to the State. For your proposal to be responsive, all required attachments must be returned. This checklist should be returned with your proposal package also.

<u>Attachment</u>	<u>Attachment Name/Description</u>
_____ Attachment 1	Required Attachment Check List
_____ Attachment 2	Proposal/Proposer Certification Sheet
_____ Attachment 3	Cost Sheet
_____ Attachment 4	Proposer References
_____ Attachment 5	Disabled Veteran Business Enterprise Participation Forms and Instructions * Std. 840 Disabled Veteran Business Enterprise Participation Summary (page 1). Good Faith Effort Documentation – Exhibit A (3 pages)
_____ Attachment 6	Payee Data Record (STD 204) (if currently not on file)
_____ Attachment 7	Contractor Certification Clauses (CCC) (304)* The CCC can be found on the Internet at www.ols.dgs.ca.gov/Standard+Language .
_____ Attachment 8	Target Area Contract Preference Act (TACPA) *
_____ Attachment 9	Enterprise Zone Act (EZA) *
_____ Attachment 10	Local Agency Military Base Recovery Area (LAMBRA) Act*

*If applicable

ATTACHMENT 2

PROPOSAL/PROPOSER CERTIFICATION SHEET

This Proposal/Proposer Certification Sheet must be signed and returned along with all the "required attachments" as an entire package in duplicate with original signatures. The proposal must be transmitted in a sealed envelope in accordance with RFP instructions.

Do not return Section C, Proposal Requirements and Information (pages _ through _) nor the "Sample Agreement" at the end of this RFP.

Place all required attachments behind this certification sheet.

I have read and understand the DVBE Participation requirements and have included documentation demonstrating that I have met the participation goals or have made a good faith effort.

The signature affixed hereon and dated certifies compliance with all the requirements of this proposal document. The signature below authorizes the verification of this certification.

**An Unsigned Proposal/Proposer Certification Sheet
May Be Cause For Rejection**

1. Company Name		2. Telephone Number ()	2a. Fax Number ()
3. Address			
Indicate your organization type:			
4. <input type="checkbox"/> Sole Proprietorship		5. <input type="checkbox"/> Partnership	6. <input type="checkbox"/> Corporation
Indicate the applicable employee and/or corporation number:			
7. Federal Employee ID No. (FEIN)		8. California Corporation No.	
9. Indicate applicable license and/or certification information:			
10. Proposer's Name (Print)		11. Title	
12. Signature		13. Date	
14. Are you certified with the Department of General Services, Office of Small Business Certification and Resources (OSBCR) as:			
a. California Small Business Yes <input type="checkbox"/> No <input type="checkbox"/> If yes, enter certification number: _____		b. Disabled Veteran Business Enterprise Yes <input type="checkbox"/> No <input type="checkbox"/> If yes, enter your service code below: _____	
<p>NOTE: A copy of your Certification is required to be included if either of the above items is checked "Yes". Date application was submitted to OSBCR, if an application is pending:</p>			

Complete the numbered items on the
Proposal/Proposer Certification Sheet by following the instructions below.

Item Numbers	Instructions
1, 2, 2a, 3	Must be completed. These items are self-explanatory.
4	Check if your firm is a sole proprietorship. A sole proprietorship is a form of business in which one person owns all the assets of the business in contrast to a partnership and corporation. The sole proprietor is solely liable for all the debts of the business.
5	Check if your firm is a partnership. A partnership is a voluntary agreement between two or more competent persons to place their money, effects, labor, and skill, or some or all of them in lawful commerce or business, with the understanding that there shall be a proportional sharing of the profits and losses between them. An association of two or more persons to carry on, as co-owners, a business for profit.
6	Check if your firm is a corporation. A corporation is an artificial person or legal entity created by or under the authority of the laws of a state or nation, composed, in some rare instances, of a single person and his successors, being the incumbents of a particular office, but ordinarily consisting of an association of numerous individuals.
7	Enter your federal employee tax identification number.
8	Enter your corporation number assigned by the California Secretary of State's Office. This information is used for checking if a corporation is in good standing and qualified to conduct business in California.
9	Complete, if applicable, by indicating the type of license and/or certification that your firm possesses and that is required for the type of services being procured.
10, 11, 12, 13	Must be completed. These items are self-explanatory.
14	If certified as a California Small Business, place a check in the "yes" box, and enter your certification number on the line. If certified as a Disabled Veterans Business Enterprise, place a check in the "Yes" box and enter your service code on the line. If you are not certified to one or both, place a check in the "No" box. If your certification is pending, enter the date your application was submitted to OSBCR.

ATTACHMENT 3

SAMPLE COST PROPOSAL WORKSHEET (This sheet may be modified)

DIRECT LABOR	HOURS	RATE	TOTAL
Program Manager (Job Description)	_____	@ _____	_____
Staff Assistant (Job Description)	_____	@ _____	_____
Technician (Job Description)	_____	@ _____	_____
Clerical (Job Description)	_____	@ _____	_____
			\$ _____
SUBCONTRACTOR(S) COST ITEMIZED			\$ _____
INDIRECT COSTS (OVERHEAD AND FRINGE BENEFITS)			
Overhead Rate		_____	_____
Fringe Benefits		_____	_____
			\$ _____
DIRECT COSTS (EXCEPT LABOR)			
Travel Costs			_____
Equipment and Supplies (Itemized)			_____
Other Direct Costs (Itemized)			_____
			\$ _____
TOTAL COSTS			\$ _____

ATTACHMENT 4

PROPOSER REFERENCES

Submission of this attachment is mandatory. Failure to complete and return this attachment with your proposal will cause your proposal to be rejected and deemed nonresponsive.

List below three references for services performed within the last five years, which are similar to the scope of work to be performed in this contract. If three references cannot be provided, please explain why on an attached sheet of paper.

REFERENCE 1

Name of Firm			
Street Address	City	State	Zip Code
Contact Person		Telephone Number	
Dates of Service		Value or Cost of Service	
Brief Description of Service Provided			

REFERENCE 2

Name of Firm			
Street Address	City	State	Zip Code
Contact Person		Telephone Number	
Dates of Service		Value or Cost of Service	
Brief Description of Service Provided			

REFERENCE 3

Name of Firm			
Street Address	City	State	Zip Code
Contact Person		Telephone Number	
Dates of Service		Value or Cost of Service	
Brief Description of Service Provided			

DOCUMENTATION OF DISABLED VETERAN BUSINESS ENTERPRISE PROGRAM REQUIREMENTS

STD 840 (REV. 9-15-2003)

Designation Of Option Check the appropriate box(es) to indicate the option(s) with which you choose to comply, complete the applicable sections and attach the required supporting documentation. You are advised to read all instructions carefully prior to completing this form. Remember that only California certified DVBEs who can provide related goods and/or services may be used to satisfy these program solicitation requirements.

- ☐ **OPTION A – I commit to meeting the full DVBE contract participation requirement.**
Complete STD 840, Section A.
- ☐ **OPTION B – I performed and documented a Good Faith Effort (GFE) in an attempt to obtain DVBE participation.**
Complete STD 840, Section A (for GFE Steps 4 & 5) and STD 840 (REVERSE), Section B (for GFE Steps 1–3).
- ☐ **OPTION C – I submit a copy of my firm's "Notice of Approved DVBE Business Utilization Plan."**

A. Full information must be provided.

For contract participation commitment, at least one DVBE must be listed. DVBEs must perform a commercially useful function. List the specific goods and/or services with the dollar and/or percentage value(s) that the DVBE(s) commit(s) to provide and the DVBE's tier (prime contractor = 0, subcontractor to prime contractor = 1, subcontractor to Tier 1 subcontractor = 2, etc.). If both the estimated dollar amount and percentage are listed, the higher value supercedes. Attach additional pages to list all other DVBE subcontractors/suppliers (you may use STD 840A). During contract performance, all requests for substituting named DVBEs must be made in accordance with the provisions of California Code of Regulations, Title 2, Section 1896.64(c).

For Good Faith Effort (GFE), use this section to document your first completed contacts with (Step 4), and consideration of (Step 5), relevant DVBEs. Business reasons for non-selection must be documented. Attach additional pages to list all other DVBE contacts (you may use STD 840A). Copies of all written invitations and delivery confirmations must also be attached and submitted with the bid.

BOTH SECTIONS MUST BE COMPLETED FOR GOOD FAITH EFFORT AT LEAST ONE DVBE MUST BE NAMED FOR PARTICIPATION	Date Contacted / /		DVBE Company Name (If you are the Prime and a DVBE enter your name, otherwise enter the solicited subcontractor.)			
	DVBE Contact Name & Reference #		Telephone Number ()	Fax Number ()	E-mail (if available)	
	Street Address, City, State and Zip Code					
	OR	<input type="checkbox"/> Yes, I am, or I will subcontract with, the listed DVBE to provide the following goods and/or services:				
		Specific Goods and/or Services			Estimated \$ and/or % \$ / %	Tier
		<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:				
	Date Contacted / /		DVBE Company Name			
	DVBE Contact Name		Telephone Number ()	Fax Number ()	E-mail (if available)	
	Street Address, City, State and Zip Code					
OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:					
	Specific Goods and/or Services			Estimated \$ and/or % \$ / %	Tier	
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:					

ATTACH ADDITIONAL PAGES (OR USE STD 840A) TO LIST ALL OTHER DVBE CONTACTS

Go to Side 2, Section B to continue Good Faith Effort documentation ⇨

ADDITIONAL DISABLED VETERAN BUSINESS ENTERPRISE CONTACTS

STD 840A (EST. 9-15-2003)

- B. Documentation of Good Faith Effort Steps 1, 2 and 3**—Remember to carefully read all instructions prior to completing this form. Please refer to the Resources & Information page for detailed contact information and a sample advertisement format.

STEP 1. Contact the Awarding Department (the contracting official, unless another contact is specified) to identify potential DVBE subcontractors/suppliers, and document this contact as required.

Date / /	Contact Name	Telephone Number ()
Describe Result		

STEP 2. Contact all of the following and document your contacts as required: Other state and federal agencies and local organizations to identify potential DVBE subcontractors/suppliers.

Other State Agency – Procurement Division, Office of Small Business and DVBE Certification (Certification Office)

PHONE CONTACT OR ONLINE SEARCH	Date / /	Telephone Number (916) 322-5060 (916) 375-4940	Contact Name	<input type="checkbox"/> I contacted the Certification Office for a list of California certified DVBEs.
	Date / /	Internet Address http://www.pd.dgs.ca.gov/smbus		<input type="checkbox"/> I searched the Certification Office's online database to identify California certified DVBEs.
Describe Result				

Federal Agency – U.S. Small Business Administration (SBA) online database

Date / /	Internet Address http://www.pro-net.sba.gov	<input type="checkbox"/> I searched the federal online database for California DVBEs.
Describe Result		

Local DVBE Organizations – Contact at least one local DVBE organization—refer to the DVBE Resource Packet for a list of acceptable contacts. (<http://www.pd.dgs.ca.gov/smbus> - select "DVBE Resource Packet")

Date / /	Organization Name	Contact Name	Telephone Number and/or Internet Address () http://www
Describe Result			

Date / /	Organization Name	Contact Name	Telephone Number and/or Internet Address () http://www
Describe Result			

STEP 3. Publish advertisements: Two (2) advertisements: One (1) ad in an accepted trade paper; and one (1) ad in an accepted DVBE focus paper (please see the DVBE Resource Packet for a list of all accepted publications); unless the paper is dual purpose (fulfilling both trade and focus requirements), in which case one (1) ad is acceptable. Document this step as required and remember to attach a copy of your advertisement(s).

Focus Paper Name (list full name)		Contact Name	Telephone Number ()
Address			Date Ad Published / /
Trade Paper Name (list full name)		Contact Name	Telephone Number ()
Address			Date Ad Published / /
<input type="checkbox"/> I certify the ad was placed to reach both trade and focus audiences through this one publication.			
Trade and Focus Paper Name (list full name)		Contact Name	Telephone Number ()
Address			Date Ad Published / /

ADDITIONAL DISABLED VETERAN BUSINESS ENTERPRISE CONTACTS

STD 840A (EST. 9-15-2003)

This document may be used as a continuation from Section A, STD 840 (REV. 9-15-2003)

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

ADDITIONAL DISABLED VETERAN BUSINESS ENTERPRISE CONTACTS

STD 840A (EST. 9-15-2003) (REVERSE)

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

Date Contacted / /	DVBE Company Name		
DVBE Contact Name	Telephone Number ()	Fax Number ()	E-mail (if available)
Street Address, City, State and Zip Code			

OR	<input type="checkbox"/> Yes, I will subcontract with the listed DVBE to provide the following goods and/or services:		
	Specific Goods and/or Services	Estimated \$ and/or % \$ / %	Tier
	<input type="checkbox"/> No, I am unable to subcontract with the DVBE for the following business reasons:		

ATTACHMENT 6

STATE OF CALIFORNIA

PAYEE DATA RECORD

(Required in lieu of IRS W-9 when doing business with the State of California)

STD. 204 (REV. 2-2000)

NOTE: Governmental entities, federal, state, and local (including school districts) are not required to submit this form.

SECTION 1 must be completed by the requesting state agency before forwarding to the payee

1 PLEASE RETURN TO:	DEPARTMENT/OFFICE STREET ADDRESS CITY, STATE, ZIP CODE TELEPHONE NUMBER	PURPOSE: Information contained in this form will be used by state agencies to prepare information Returns (Form 1099) and for withholding on payments to nonresident payees. Prompt return of this fully completed form will prevent delays when processing payments. <i>(See Privacy Statement on reverse)</i>								
2 PAYEE'S BUSINESS NAME MAILING ADDRESS (Number and Street or P. O. Box Number) (City, State and Zip Code)										
3 VENDOR ENTITY INFORMATION	CHECK ONE BOX ONLY <input type="checkbox"/> LEGAL CORPORATION <input type="checkbox"/> MEDICAL CORPORATION <input type="checkbox"/> EXEMPT CORPORATION <input type="checkbox"/> ALL OTHER CORPORATIONS FEDERAL EMPLOYERS IDENTIFICATION NUMBER (FEIN) <div style="border: 1px solid black; width: 150px; height: 15px; margin: 2px 0;"></div> <input type="checkbox"/> INDIVIDUAL OR SOLE PROPRIETOR SOCIAL SECURITY NUMBER OF OWNER <div style="border: 1px solid black; width: 150px; height: 15px; margin: 2px 0;"></div> OWNER'S FULL NAME (Print) <div style="border: 1px solid black; width: 200px; height: 15px; margin: 2px 0;"></div>	NOTE: State and local governmental entities, including school districts are not required to submit this form. NOTE: Payment will not be processed without an accompanying taxpayer I.D. number.								
4 PAYEE RESIDENCY STATUS	CHECK APPROPRIATE BOX(ES) <input type="checkbox"/> California Resident - Qualified to do business in CA or a permanent place of business in CA <input type="checkbox"/> Nonresident (<i>See Reverse</i>) Payments to nonresidents for services may be subject to state withholding <input type="checkbox"/> WAIVER OF STATE WITHHOLDING FROM FRANCHISE TAX BOARD ATTACHED <input type="checkbox"/> SERVICES PERFORMED OUTSIDE OF CALIFORNIA/ GOODS ONLY SOLD TO CALIFORNIA	NOTE: a. An estate is a resident if decedent was a California resident at time of death. b. A trust is a resident if at least one trustee is a California resident. <i>(See reverse)</i>								
5 CERTIFYING SIGNATURE	<p style="text-align: center;"><i>I hereby certify under penalty of perjury that the information provided on this document is true and correct. If my residency status should change, I will promptly inform you.</i></p> <table border="1" style="width: 100%;"> <tr> <td colspan="2" data-bbox="267 1764 966 1816">AUTHORIZED PAYEE REPRESENTATIVE'S NAME (<i>Type or Print</i>)</td> <td colspan="2" data-bbox="966 1764 1559 1816">TITLE</td> </tr> <tr> <td data-bbox="267 1816 966 1911">SIGNATURE <div style="border: 1px solid black; width: 150px; height: 30px; margin: 2px 0;"></div> </td> <td data-bbox="966 1816 1282 1911">DATE</td> <td colspan="2" data-bbox="1282 1816 1559 1911">TELEPHONE NUMBER</td> </tr> </table>		AUTHORIZED PAYEE REPRESENTATIVE'S NAME (<i>Type or Print</i>)		TITLE		SIGNATURE <div style="border: 1px solid black; width: 150px; height: 30px; margin: 2px 0;"></div>	DATE	TELEPHONE NUMBER	
AUTHORIZED PAYEE REPRESENTATIVE'S NAME (<i>Type or Print</i>)		TITLE								
SIGNATURE <div style="border: 1px solid black; width: 150px; height: 30px; margin: 2px 0;"></div>	DATE	TELEPHONE NUMBER								

ARE YOU A RESIDENT OR A NONRESIDENT?

Each corporation, individual/sole proprietor, partnership, estate or trust doing business with the State of California must indicate their residency status along with their taxpayer identification number.

A corporation will be considered a "resident" if it has a permanent place of business in California. The corporation has a permanent place of business in California if it is organized and existing under the laws of this state or, if a foreign corporation has qualified to transact intrastate business. A corporation that has not qualified to transact intrastate business (e.g., a corporation engaged exclusively in interstate commerce) will be considered as having a permanent place of business in this state only if it maintains a permanent office in this state that is permanently staffed by its employees.

For individuals/sole proprietors, the term "resident" includes every individual who is in California for other than a temporary or transitory purpose and any individual domiciled in California who is absent for a temporary or transitory purpose. Generally, an individual who comes to California for a purpose which will extend over a long or indefinite period will be considered a resident. However, an individual who comes to perform a particular contract of short duration will be considered a nonresident.

For withholding purposes, a partnership is considered a resident partnership if it has a permanent place of business in California. An estate is considered a California estate if the decedent was a California resident at the time of death and a trust is considered a California trust if at least one trustee is a California resident.

More information on residency status can be obtained by calling the Franchise Tax Board at the numbers listed below:

From within the United States, call.....1-800-852-5711

From outside the United States, call.....1-916-845-6500

For hearing impaired with TDD, call.....1-800-822-6268

ARE YOU SUBJECT TO NONRESIDENT WITHHOLDING?

Payments made to nonresident payees, including corporations, individuals, partnerships, estates and trusts, are subject to withholding. Nonresident payees performing services in California or receiving rent, lease or royalty payments from property (real or personal) located in California will have 7% of their total payments withheld for state income taxes. However, no withholding is required if total payments to the payee are \$1500 or less for the calendar year.

A nonresident payee may request that income taxes be withheld at a lower rate or waived by sending a completed form FTB 588 to the address below. A waiver will generally be granted when a payee has a history of filing California returns and making timely estimated payments. If the payee activity is carried on outside of California or partially outside of California, a waiver or reduced withholding rate may be granted. For more information, contact:

Franchise Tax Board
Nonresident Withholding Section
Attention: State Agency Withholding Coordinator
P.O. Box 651 Sacramento, CA 95812-0651
Telephone: (916) 845-4900
FAX: (916) 845-4831

If a reduced rate of withholding or waiver has been authorized by the Franchise Tax Board, attach a copy to this form.

PRIVACY STATEMENT

Section 7(b) of the Privacy Act of 1974 (Public Law 93-5791) requires that any federal, state, or local governmental agency which requests an individual to disclose his social security account number shall inform that individual whether that disclosure is mandatory or voluntary, by which statutory or other authority such number is solicited, and what uses will be made of it.

The State of California requires that all parties entering into business transactions that may lead to payment(s) from the State must provide their Taxpayer Identification Number (TIN) as required by the State Revenue and Taxation Code, Section 18646 to facilitate tax compliance enforcement activities and to facilitate the preparation of Form 1099 and other information returns as required by the Internal Revenue Code, Section 6109(a). The TIN for individual and sole proprietorships is the Social Security Number (SSN).

It is mandatory to furnish the information requested. Federal law requires that payments for which the requested information is not provided be subject to a 31% withholding and state law imposes noncompliance penalties of up to \$20,000.

You have the right to access records containing your personal information, such as your SSN. To exercise that right, please contact the business services unit or the accounts payable unit of the state agency(ies) with which you transact that business.

Please call the Department of Finance, Fiscal Systems and Consulting Unit at (916) 324-0385 if you have any questions regarding this Privacy Statement. Questions related to residency or withholding should be referred to the telephone numbers listed above. All other questions should be referred to the requesting agency listed in Section 1.

CCC-304

CERTIFICATION

I, the official named below, CERTIFY UNDER PENALTY OF PERJURY that I am duly authorized to legally bind the prospective Contractor to the clause(s) listed below. This certification is made under the laws of the State of California.

<i>Contractor/Bidder Firm Name (Printed)</i>		<i>Federal ID Number</i>
<i>By (Authorized Signature)</i>		
<i>Printed Name and Title of Person Signing</i>		
<i>Date Executed</i>	<i>Executed in the County of</i>	

CONTRACTOR CERTIFICATION CLAUSES

1. **STATEMENT OF COMPLIANCE:** Contractor has, unless exempted, complied with the nondiscrimination program requirements. (GC 12990 (a-f) and CCR, Title 2, Section 8103) (Not applicable to public entities.)

2. **DRUG-FREE WORKPLACE REQUIREMENTS:** Contractor will comply with the requirements of the Drug-Free Workplace Act of 1990 and will provide a drug-free workplace by taking the following actions:

- a. Publish a statement notifying employees that unlawful manufacture, distribution, dispensation, possession or use of a controlled substance is prohibited and specifying actions to be taken against employees for violations.
- b. Establish a Drug-Free Awareness Program to inform employees about:
 - 1) the dangers of drug abuse in the workplace;
 - 2) the person's or organization's policy of maintaining a drug-free workplace;
 - 3) any available counseling, rehabilitation and employee assistance programs; and,
 - 4) penalties that may be imposed upon employees for drug abuse violations.
- c. Every employee who works on the proposed Agreement will:
 - 1) receive a copy of the company's drug-free workplace policy statement; and,
 - 2) agree to abide by the terms of the company's statement as a condition of employment on the Agreement.

Failure to comply with these requirements may result in suspension of payments under the Agreement or termination of the Agreement or both and Contractor may be ineligible for award of any future State agreements if the department determines that any of the

following has occurred: the Contractor has made false certification, or violated the certification by failing to carry out the requirements as noted above. (GC 8350 et seq.)

3. NATIONAL LABOR RELATIONS BOARD CERTIFICATION: Contractor certifies that no more than one (1) final unappealable finding of contempt of court by a Federal court has been issued against Contractor within the immediately preceding two-year period because of Contractor's failure to comply with an order of a Federal court, which orders Contractor to comply with an order of the National Labor Relations Board. (PCC 10296) (Not applicable to public entities.)

4. UNION ORGANIZING: Contractor hereby certifies that no request for reimbursement, or payment under this agreement, will seek reimbursement for costs incurred to assist, promote or deter union organizing.

5. CONTRACTS FOR LEGAL SERVICES \$50,000 OR MORE- PRO BONO REQUIREMENT: Contractor hereby certifies that contractor will comply with the requirements of Section 6072 of the Business and Professions Code, effective January 1, 2003.

Contractor agrees to make a good faith effort to provide a minimum number of hours of pro bono legal services during each year of the contract equal to the lesser of 30 multiplied by the number of full time attorneys in the firm's offices in the State, with the number of hours prorated on an actual day basis for any contract period of less than a full year or 10% of its contract with the State.

Failure to make a good faith effort may be cause for non-renewal of a state contract for legal services, and may be taken into account when determining the award of future contracts with the State for legal services.

6. EXPATRIATE CORPORATIONS: Contractor hereby declares that it is not an expatriate corporation or subsidiary of an expatriate corporation within the meaning of Public Contract Code Section 10286 and 10286.1, and is eligible to contract with the State of California.

7. SWEATFREE CODE OF CONDUCT:

a. All Contractors contracting for the procurement or laundering of apparel, garments or corresponding accessories, or the procurement of equipment, materials, or supplies, other than procurement related to a public works contract, declare under penalty of perjury that no apparel, garments or corresponding accessories, equipment, materials, or supplies furnished to the state pursuant to the contract have been laundered or produced in whole or in part by sweatshop labor, forced labor, convict labor, indentured labor under penal sanction, abusive forms of child labor or exploitation of children in sweatshop labor, or with the benefit of sweatshop labor, forced labor, convict labor, indentured labor under penal sanction, abusive forms of child labor or exploitation of children in sweatshop labor. The contractor further declares under penalty of perjury that they adhere to the Sweatfree Code of Conduct as set forth on the California Department of Industrial Relations website located at www.dir.ca.gov, and Public Contract Code Section 6108.

b. The contractor agrees to cooperate fully in providing reasonable access to the contractor's records, documents, agents or employees, or premises if reasonably required by authorized officials of the contracting agency, the Department of Industrial Relations, or the Department of Justice to determine the contractor's compliance with the requirements under paragraph (a).

8. DOMESTIC PARTNERS: Commencing on July 1, 2004 Contractor certifies that it is in compliance with Public Contract Code section 10295.3 with regard to benefits for domestic partners. For any contracts executed or amended, bid packages advertised or made available, or sealed bids received on or after July 1 2004 and prior to January 1, 2007, a contractor may require an employee to pay the costs of providing additional benefits that are offered to comply with PCC 10295.3.

DOING BUSINESS WITH THE STATE OF CALIFORNIA

The following laws apply to persons or entities doing business with the State of California.

1. CONFLICT OF INTEREST: Contractor needs to be aware of the following provisions regarding current or former state employees. If Contractor has any questions on the status of any person rendering services or involved with the Agreement, the awarding agency must be contacted immediately for clarification.

Current State Employees (PCC 10410):

1). No officer or employee shall engage in any employment, activity or enterprise from which the officer or employee receives compensation or has a financial interest and which is sponsored or funded by any state agency, unless the employment, activity or enterprise is required as a condition of regular state employment.

2). No officer or employee shall contract on his or her own behalf as an independent contractor with any state agency to provide goods or services.

Former State Employees (PCC 10411):

1). For the two-year period from the date he or she left state employment, no former state officer or employee may enter into a contract in which he or she engaged in any of the negotiations, transactions, planning, arrangements or any part of the decision-making process relevant to the contract while employed in any capacity by any state agency.

2). For the twelve-month period from the date he or she left state employment, no former state officer or employee may enter into a contract with any state agency if he or she was employed by that state agency in a policy-making position in the same general subject area as the proposed contract within the 12-month period prior to his or her leaving state service.

If Contractor violates any provisions of above paragraphs, such action by Contractor shall render this Agreement void. (PCC 10420)

Members of boards and commissions are exempt from this section if they do not receive payment other than payment of each meeting of the board or commission, payment for preparatory time and payment for per diem. (PCC 10430 (e))

2. LABOR CODE/WORKERS' COMPENSATION: Contractor needs to be aware of the provisions which require every employer to be insured against liability for Worker's Compensation or to undertake self-insurance in accordance with the provisions, and Contractor affirms to comply with such provisions before commencing the performance of the work of this Agreement. (Labor Code Section 3700)

3. AMERICANS WITH DISABILITIES ACT: Contractor assures the State that it complies with the Americans with Disabilities Act (ADA) of 1990, which prohibits discrimination on the basis of disability, as well as all applicable regulations and guidelines issued pursuant to the ADA. (42 U.S.C. 12101 et seq.)

4. CONTRACTOR NAME CHANGE: An amendment is required to change the Contractor's name as listed on this Agreement. Upon receipt of legal documentation of the name change the State will process the amendment. Payment of invoices presented with a new name cannot be paid prior to approval of said amendment.

5. CORPORATE QUALIFICATIONS TO DO BUSINESS IN CALIFORNIA:

a. When agreements are to be performed in the state by corporations, the contracting agencies will be verifying that the contractor is currently qualified to do business in California in order to ensure that all obligations due to the state are fulfilled.

b. "Doing business" is defined in R&TC Section 23101 as actively engaging in any transaction for the purpose of financial or pecuniary gain or profit. Although there are some statutory exceptions to taxation, rarely will a corporate contractor performing within the state not be subject to the franchise tax.

c. Both domestic and foreign corporations (those incorporated outside of California) must be in good standing in order to be qualified to do business in California. Agencies will determine whether a corporation is in good standing by calling the Office of the Secretary of State.

6. RESOLUTION: A county, city, district, or other local public body must provide the State with a copy of a resolution, order, motion, or ordinance of the local governing body which by law has authority to enter into an agreement, authorizing execution of the agreement.

7. AIR OR WATER POLLUTION VIOLATION: Under the State laws, the Contractor shall not be: (1) in violation of any order or resolution not subject to review promulgated by the State Air Resources Board or an air pollution control district; (2) subject to cease and desist order not subject to review issued pursuant to Section 13301 of the Water Code for violation of waste discharge requirements or discharge prohibitions; or (3) finally determined to be in violation of provisions of federal law relating to air or water pollution.

8. PAYEE DATA RECORD FORM STD. 204: This form must be completed by all contractors that are not another state agency or other governmental entity.

S:\ADMIN\HOMEPAGE\CCC\CCC-304 4-5.doc

XXX

1. This Agreement is entered into between the State Agency and the Contractor named below:

STATE AGENCY'S NAME

DEPARTMENT OF INDUSTRIAL RELATIONS

CONTRACTOR'S NAME

XXX

2. The term of this
Agreement is:

3. The maximum amount \$850,000.00
of this Agreement is: Eight hundred fifty thousand dollars only

4. The parties agree to comply with the terms and conditions of the following exhibits which are by this reference made a part of the Agreement.

Exhibit A - Scope of Work

7 page(s)

Exhibit B - Budget Detail and Payment Provisions

1 page(s)

Exhibit C*- General Terms and Conditions

GTC-304

Exhibit D - Special Terms and Conditions (Attached hereto as part of this agreement)

1 page

SAMPLE

Items shown with an Asterisk (), are hereby incorporated by reference and made part of this agreement as if attached hereto.
These documents can be viewed at www.ols.dgs.ca.gov/Standard+Language*

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

CONTRACTOR

CONTRACTOR'S NAME (If other than an individual, state whether a corporation, partnership, etc.)

XXX

BY (Authorized Signature)

DATE SIGNED (Do not type)



PRINTED NAME AND TITLE OF PERSON SIGNING

ADDRESS

STATE OF CALIFORNIA

AGENCY NAME

DEPARTMENT OF INDUSTRIAL RELATIONS

BY (Authorized Signature)

DATE SIGNED (Do not type)



PRINTED NAME AND TITLE OF PERSON SIGNING

Aurora Tison, Staff Services Manager

ADDRESS

Division of Administration, Contracts Unit
455 Golden Gate Avenue, 8th Floor, San Francisco CA 94102

**California Department of General
Services Use Only**

☐ Exempt per:

EXHIBIT A

SCOPE OF WORK

This agreement is entered into by and between the Department of Industrial Relations (DIR) and the XXX Corporation to provide the following services:

A. Objective and Scope of the Study

The California workers' compensation insurance system has been through several recent episodes of reform since deregulation of the insurance market became effective in 1995. The first set of changes in 2002 substantially increased benefits to injured workers, while beginning to address medical care costs, return to work incentives and enforcement against illegally uninsured employers. The bill also allowed settlement of the vocational rehabilitation benefit, repealed some outdated dispute resolution notions and revamped the system for auditing and enforcing standards on claims operations. The major efforts to reduce system costs took place beginning in 2003.

The objectives of this study are to understand the effects of the workers' compensation legislation of 2003 and 2004 on workers' compensation insurance rates. While the legislation creating the study does not specifically mention the 2002 reforms, clearly an understanding of the impact of that legislation on the system is important to set the context for the subsequent sets of reforms.

The study mandated by Labor Code section 138.65 is intended to identify and quantify the savings generated by the series of reforms. The study will review existing evidence to determine if the savings generated by the legislative changes are being reflected in insurance rates, and if so, by how much. The study will look at how the savings generated by the legislation are being used to replenish surpluses for workers' compensation insurance coverage. The study will look at the effects that the reforms had on the marketplace and competition, as well as on rates. The study will review the experience of the Workers' Compensation Insurance Rating Bureau (WCIRB) and the Department of Insurance in recommending premium rates that were accurate and adequate. And, finally, the study must be comprehensive in scope and mindful of the present state of the process that leads to rate setting, so that it can be helpful to the Governor, the Insurance Commissioner, and the Legislature in their deliberations and development of alternative strategies concerning the appropriateness and form of any changes to the present deregulated system.

The study is intended to look at the effects on insurance rates of the last two years of workers' compensation reform. The first half of the major workers' compensation reforms – Senate Bill 228 and Assembly Bill 227 – were passed in 2003 and became law on January 1, 2004. Some of the key reforms built into this legislation include: establishment of an outpatient fee schedule indexed at 120 percent of Medicare, adoption of interim utilization guidelines for medical

treatment, retroactive repeal of the treating physician's presumption, limits on chiropractic and physical therapy treatments to no more than 24 per claim, a new pharmaceutical fee schedule, a generic drug requirement, minimum standards for claims examiners, stronger penalties on fraud, a new alternative dispute resolution (carve out) program, 100% user funding of the workers' compensation system, and repeal of the vocational rehabilitation program.

A second major workers' compensation package - SB 899 - became law on April 19, 2004. Some of the key reforms built into this legislation include: reform of permanent disability benefits including apportionment to past injuries, and use of the American Medical Association (AMA) guidelines for the determination of impairment, establishment of new return-to-work provisions, changes enhancing employer control of medical care, incorporation of medical provider networks and increased use of independent qualified medical evaluators, limiting temporary disability benefits to two years, rationalization of the penalty structure, complete elimination of the treating physician presumption, immediate medical benefits, expansion of carve-out programs, and critical clean-up of Assembly Bill 227 and Senate Bill 228.

The study mandated by Labor Code section 138.65 will evaluate the effect of these reforms on workers' compensation insurance rates. The successful bidder will be required to submit a report that will assist the Governor and the Insurance Commissioner in making recommendations for regulatory, statutory, and market reforms, including, but not limited to the appropriateness of regulating workers' compensation insurance rates. The study should also assist the Governor and Insurance Commissioner in determining whether premium rates appropriately reflect the savings and the timing of the savings, and if the rates do not, propose options for how rates should be regulated and by whom.

Specific topics to be addressed are included in the statute.

ESSENTIAL ELEMENTS REQUIRED IN THE PROPOSAL:

- Identify and quantify the savings generated by the reforms.
This requires description and documentation of provisions in 2003 and 2004 statutes that affect past, present and future losses. Consideration should also be given to the potential impacts of regulatory and/or judicial decisions in determining ultimate savings.
- Review workers' compensation insurance rates to determine the extent to which the reform savings were reflected in premium rates of policyholders.
This may include reviewing the rates; giving consideration to an insurer's premium revenue, claim costs, and surplus levels. This may include collecting information for a baseline period prior to reforms, as well as during and after reform period on all policy years.

- Assess the effect of the reform savings on replenishing surpluses for workers' compensation insurance coverage.
This may include effects of reform on past policy years and adequacy of reserves for past years, and a description of the expected payment stream over time for long tail claims. This may also include a discussion of any proposed methodology of identifying surplus allocations for workers' compensation risks within multi-line and/or multi-state insurance operations.
- Review the effects of the reforms on the workers' compensation insurance rates, marketplace, and competition. This may include description of entry and exit of insurers pre- and post-reform; design and implementation of a survey of brokers on changes in the marketplace; with attention paid to differences in size, industry, geography and workplace hazard; and a description of the changes in the market share distribution within work classifications for the study period. This may also include studies of the changes over time, whether voluntary or externally imposed, of discount and schedule rating plans. This task may include an interview process involving insurer actuaries or review of rate adequacy studies of insurance carriers. Discussion of means of getting such access may be included in the proposal. In addition, this section may include discussion of the factors influencing the attraction of capital into the insurance market, and decision making processes of new entrants and venture capitalists considering expansion in the state. The study may include an evaluation of the role of reinsurance in workers' compensation insurance marketplace after deregulation, including its effect on the cost and availability of insurance and the ability to respond to catastrophic losses. Finally, the study may include an evaluation of the effect of external factors on rate levels and (de)stabilization of the market, including, but not limited to, earthquake and terrorism exposures (including the effect of the Federal Terrorism Risk Insurance Act)
- Review the adequacy and accuracy of the pure premium rate as recommended by the Workers' Compensation Insurance Rating Bureau and the pure premium rate adopted by the Insurance Commissioner.
This task may include review of the process of determining rate recommendations in California and in other representative states, contrasting the existing system with alternative methods, and an analysis of the adequacy and accuracy of present methods. The analysis may identify weaknesses in the present methodology and process and suggest improvements. It may also include evaluation of other state or insurance ratesetting processes involving public advocates, intervenors, or other participants, which are relevant to improving the open exchange of information about costs, premium rates, economic conditions, and other factors. The analysis may include a discussion of the differences between suggested pure premium rates and ultimate rates charged, and modeling of financial results that might have occurred if carriers had adopted WCIRB's pure premium rates plus standard expense multipliers.

B. Work Approach

Information for this study will be gathered through the following activities:

1. Review of all workers' compensation legislation passed during the 2003 and 2004 legislative sessions to determine if it should be evaluated for purposes of this project.
2. Literature review including all five (5) volumes of the Workers' Compensation Rate Study Commission Final Report of March 1992. To the extent the documents are available, the contractor will also review the background materials and final drafts of Insurance Market studies commissioned by the Commission on Health and Safety and Workers' Compensation.
3. Direct review of experience of other states and/or review of studies done by other states on ratemaking, regulatory process, effect of reforms on insurance markets, etc.
4. A review of literature on open rating and insurance market competition.
5. Insurers shall submit to the contracting organization premium revenue, claims costs, and surplus levels in different timing aggregates as established by the contracting organization, but at least quarterly and annually. The contracting organization may also request additional materials when appropriate. The contracting organization shall maintain strict confidentiality of the data. An insurer that fails to comply with the reporting requirements of this subdivision is subject to Section 11754 of the Insurance Code.
6. Interviews with insurers (especially actuaries and underwriters), regulators including California Department of Insurance (CDI), and the Workers' Compensation Insurance Rating Bureau (WCIRB), employers, and Division of Workers' Compensation (DWC) auditors.
7. Interviews and/or records review, if access can be negotiated, of a statistically valid cross section of employers to determine changes in classification, pricing, availability of markets.
8. Review and analysis of type, scope and magnitude of discount plans offered by insurers since deregulation, aggregating effects of schedule rating, expense modifiers (loss cost multipliers) and other factors.
9. An analysis of DWC Audit Unit data on claims handling performance, and the trends in performance since the introduction of deregulation and the rapid variation of insurer caseloads.
10. An analysis of appropriate insurance market data concerning trends in solvency, reserves, and market share of different types of carriers.
11. Discussion and analysis of reserving practices within California's workers' compensation insurance industry, including means of determining adequacy of

reserves at times of significant inflation, and determination of reasonableness of reserving process.

C. Deliverables

1. Contractor shall provide monthly written progress reports on the fifth working day of the month, beginning one month after the initial contract start date, until completion of the project; a study progress report on or before September 1, 2005; a draft of the final study report on December 1, 2005 and a final study report on or before December 20, 2005.

The progress reports are to address the progress made, findings to date, problems encountered by the contractor, and a comparison of estimated versus actual project costs to date, by task. Deviation of more than ten percent (10%) from projected costs must be requested in advance by the contractor. Deviations exceeding ten percent (10%) that were not approved in advance may result in contractual non-compliance measures being taken. Only internal budgetary adjustments will be permitted; the total cost cannot exceed the cost specified in the contract.

The monthly progress reports are designed to provide a formal vehicle for written communication from the contractor to the Division of Workers' Compensation prior to the issuance of the final report. They will be superseded in their entirety upon issuance of the final report.

Ten copies of all reports shall be forwarded to:

Andrea Lynn Hoch
Administrative Director, Division of Workers' Compensation
Department of Industrial Relations
455 Golden Gate Avenue, 9th Floor
San Francisco, CA 94102

2. In addition to the written reports required, the contractor(s) will be required to provide monthly oral briefings to the Administrative Director or her designee(s), commencing after the third week of work. Such monthly oral briefings may be waived if found not to be necessary by the Administrative Director.
3. After the issuance of the final study report, the contractor shall allow adequate time to formally present final findings and recommendations to the Administrative Director and staff. This presentation must take place within six weeks after submission of the final study report at a mutually agreeable time and place.
4. The final study report must include, at minimum, detailed information on topics discussed under Objective and Scope of the Study, and in Work Approach.

Monitoring of Contract Performance

1. Andrea Lynn Hoch, Administrative Director, Division of Workers' Compensation is designated the Project Coordinator. This person will have the overall responsibility to monitor and evaluate the performance of the Contractor in conducting the study for the Division under this agreement. The Project Coordinator may delegate her authority under this contract to a staff member.
2. The Project Coordinator, or designee, will review all reports for technical quality and compliance with the contract terms. Specifications for revisions necessary to remove discrepancies will be set forth by the Project Coordinator, or designee, in writing and are binding on the contractor insofar as the specification do not exceed the scope of the work required in the contract. The contractor must revise and deliver to the Project Coordinator within fifteen (15) working days any product deemed unacceptable by the Project Coordinator.
3. Any product submitted a second time and found unacceptable by the Project Coordinator will be rejected and either: (1) the cost of revising the product to make it acceptable to the Project Coordinator will be absorbed by the contractor; (2) the cost of work not satisfactorily performed will be withheld; or (3) the contract will be canceled for non-performance. A total of ten percent of the total contract amount will be withheld pending submission and acceptance of the final report. This amount will be paid within two weeks of report submission upon receipt of an appropriate invoice, unless written notification of non-compliance is provided by the Project Coordinator.
4. Any information developed for the purposes of this evaluation shall remain in the public domain. In addition, if the contractor develops a database for use in conducting this study, a computer-usable copy shall be provided to DWC upon completion of the final report.
5. The contractor is required to obtain prior approval from the Project Coordinator before changing project management personnel or professional/technical staff members. The qualifications of proposed staff replacements must be reviewed and approved by the Project Coordinator prior to the assignment.

D. The contact persons for this agreement are:

XXX Corporation

Attn: XXX, Contract and Grant Administrator
XXX Street
P.O. Box XXX
XXX, CA XXXXX
(xxx) xxx-xxxx

Department of Industrial Relations

Division of Workers' Compensation
Attn: Andrea Lynn Hoch
455 Golden Gate Avenue, 9th Floor
San Francisco, CA 94102
(415) 703-4600

Department of Industrial Relations

Division of Administration
Contracts Unit
Attn: Aurora Tison
455 Golden Gate Avenue, 8th Floor
San Francisco, CA 94102
(415) 703-4900

EXHIBIT B

BUDGET DETAIL AND PAYMENT PROVISIONS

1. Invoicing and Payment

- A. For services satisfactorily rendered according to the Scope of Work in Exhibit A, and upon receipt and approval of the invoices, the State agrees to compensate the Contractor in arrears in accordance with the provisions of this agreement. If progress payments are allowed for services performed under this contract, not less than ten (10) percent of the contract amount shall be withheld pending final completion of the contract, and receipt and acceptance by Department of Industrial Relations of any final reports required under the contract.
- B. Invoices shall include the Agreement Number and shall be submitted in triplicate not more frequently than monthly in arrears to:
- Department of Industrial Relations
Division of Workers' Compensation
Attn: Andrea Lynn Hoch, Administrative Director
455 Golden Gate Avenue, 9th Floor
San Francisco, CA 94102
- C. The total amount payable under this agreement shall not exceed eight hundred fifty thousand dollars and no cents (\$850,000.00).

2. Budgetary Contingency Clause

- A. It is mutually agreed that if the Budget Act of the current year and/or any subsequent years covered under this Agreement does not appropriate sufficient funds for the program, this Agreement shall be of no further force and effect. In this event, the State shall have no liability to pay any funds whatsoever to Contractor or to furnish any other considerations under this Agreement, and Contractor shall not be obligated to perform any provisions of this Agreement.
- B. If funding for any fiscal year is reduced or deleted by the Budget Act for purposes of this program, the State shall have the option to either; cancel this Agreement with no liability occurring to the State, or offer an Agreement amendment to Contractor to reflect the reduced amount.

EXHIBIT C

PLEASE NOTE: This page will not be included with the final agreement. The General Terms and Conditions will be included in the agreement by reference to Internet site:
www.dgs.ca.gov/contracts

SAMPLE

EXHIBIT D

SPECIAL TERMS AND CONDITIONS

1. Amendment

Parties agree that this contract may be amended upon written agreement by both parties. The amendment shall not be valid unless signed by both parties and approved as required by other State approving agencies.

2. Right to Terminate

The State reserves the right to terminate this agreement subject to 30 days written notice to the Contractor. Contractor may submit a written request to terminate this agreement only if the State should substantially fail to perform its responsibilities as provided herein.

3. Purchase Equipment

Any equipment purchased in order to complete this project will become the property of DIR upon completion of the contract and must be delivered to Project Coordinator within 15 days after completion. Final invoice will not be paid until such equipment is delivered.

4. Potential Subcontractors

Nothing contained in this Agreement or otherwise, shall create any contractual relation between the State and any subcontractors, and no subcontract shall relieve the Contractor of his responsibilities and obligations hereunder. The Contractor agrees to be as fully responsible to the State for the acts and omissions of its subcontractors and of persons either directly or indirectly employed by any of them as it is for the acts and omissions of persons directly employed by the Contractor. The Contractor's obligation to pay its subcontractors is an independent obligation from the State's obligation to make payments to the Contractor. As a result, the State shall have no obligation to pay or to enforce the payment of any moneys to any subcontractor.